



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 5/18/2004

GAIN Report Number: VM4029

Vietnam

Coffee

SEMI-ANNUAL

2004

Approved by:

Henry Schmick
U.S. Embassy

Prepared by:

Bui Thi Huong

Report Highlights: Vietnam's coffee exports for the first seven months of the 2003/2004 marketing year (October 2003 - April 2004) increased in both volume and value compared to last year, and our previous estimates. Post revises Vietnam's 2003/04 coffee export estimate to 700 thousand metric tons due to higher supplies from a good 2003/2004 harvest. Assuming normal weather patterns, Post estimates 2004/2005 exports will be roughly the same, around 680-700 thousand metric tons.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Hanoi [VM1]
[VM]

TABLE OF CONTENTS

PRODUCTION	3
Vietnam's 2003/04 coffee production	3
Expansion of Arabica coffee area (way) behind the schedule	3
Vietnam's 2004/05 coffee crop	3
Table 1: Vietnam Coffee Production, Supply and Demand (revised May 2004)	4
PRICE	4
Domestic prices	4
Export prices	4
Table 2: Vietnam's average coffee export prices, Oct-April period (unit: \$/mt)	4
TRADE	5
Coffee Exports	5
Table 3: Vietnam's 2002/03 and 2003/04 coffee exports (October-April period)	5
Imports of coffee products	5
Domestic coffee consumption	5
Table 4: Vietnam coffee PS&D table	6
POLICY	6
Vietnam keen to improve coffee quality	6
Measures set for sustainable coffee development by 2010	7
Vietnam promote coffee to non-traditional and domestic markets	7

PRODUCTION

Vietnam's 2003/04 coffee production

Post revises Vietnam's 2003/04 coffee production estimate to 730 thousand metric tons (tmt), equivalent to 12,166 thousand 60-kg bags, due to better crop yields because of favorable weather and increased farmer investment (both management time and cash outlays).

In Dak Lak, the largest coffee producing province -- growing about 50-55% of Vietnam's coffee output, the 2003/04 coffee production was 360 tmt, about 10% higher than the 2002/03 level.

The 2003/04 coffee production in Lam Dong, the second largest coffee producing province, also increased by 5% to 165 tmt.

Expansion of Arabica coffee area (way) behind the schedule

Vietnam's total arabica coffee area is estimated at 25,000 ha, much below the government's target to have 40,000 ha of Arabica coffee by 2004. Much of the delay is due to slow implementation of the French-funded arabica project. In 1997, Vietnam launched an arabica coffee project funded by French Overseas Development Agency to grow 40,000 ha of arabica coffee in North and Central of Vietnam.

However, in 2001 Vietnam revised the project's target area down to 26,000 ha in order to increase the capital investment per hectare to an appropriate level. The current project planted area is estimated at 15,000 ha, much lower than the project's goal of 26,000 ha by 2004. According to local experts, low coffee prices and inappropriate capital investment are the main reasons for the delay.

Post estimates Vietnam's 2003/04 arabica production at 16 tmt (or 266 thousand bags). The arabica production is concentrated in Lam Dong (the Tay Nguyen / Central Highlands), Quang Tri, Nghe An, Thanh Hoa (Central Vietnam) and Son La, Yen Bai (North Vietnam).

Vietnam's 2004/05 coffee crop

Post estimates Vietnam's 2004/05 coffee production at 720 tmt, slightly lower than the 2003/04 crop level due to a small decrease in area as some farmers look for more profitable crops.

Most of the area reduction will occur in the Tay Nguyen / Central Highland provinces where some aged and low productivity coffee trees will be chopped down to grow other crops including cashews, corn, beans and cocoa.

The 2004/2005 crop yield is expected to remain roughly the same as the 2003/2004 level as coffee growers are not overly encouraged by current prices (although much better than several years ago) and the Government warns farmers not to increase use of inputs (chemicals) that might harm the environment in the long run.

Table 1: Vietnam Coffee Production, Supply and Demand (revised May 2004)

	2001/02		2002/03		2003/04		2004/05
	Old	Revised	Old	Revised	Old	Revised	Estimate
Sown Area	540	540	520	520	510	510	500
Area Harvested	470	470	500	500	500	500	495
Beginning Stock	30	30	50	50	20	20	18
Production (green bean)	735	735	615	670	710	730	720
Total Import	0	0	0	0	0	0	0
Jan-Dec Import	0	0	0	0	0	0	0
Jan-Dec Import from U.S	0	0	0	0	0	0	0
TOTAL SUPPLY	765	765	665	720	730	750	738
TOTAL EXPORT	670	720	590	670	680	700	690
Jan-Dec Export	670	720	590	670	680	700	690
TOTAL Dom. Consumption	38	30	30	30	32	32	33
Ending Stock	57	15	45	20	8	18	15
TOTAL DISTRIBUTION	810	765	665	720	730	730	738

Source: Vicofa and FAS/Vietnam

PRICE Exchange rate: VND (Vietnamese Dong) 15,760 equal to \$1 as of May 18, 2004

Domestic prices

Robusta domestic prices were relatively stable during the first seven months of the 2003/04 crop year, as prices varied between VND 9,150 to VND 10,000/kg.

Export prices

In early May, export prices offered for Vietnam's coffee are \$630-635/mt, about \$2-3/mt lower than the prices quoted in March. According to traders, export prices are not expected to increase in the remaining months of the 2003/04 crop due to new supplies from Indonesia.

Vietnam coffee export prices were fluctuating between \$610-685/mt during the October-April period of the 2003/04 crop. The monthly average coffee export prices were slightly higher compared with 2002/2003 prices (see table 2).

Table 2: Vietnam's average coffee export prices, Oct-April period (unit: \$/mt)

	2002/03 crop	2003/04 crop	Change (%)
October	498	652	30.9
November	548	629	14.8
December	596	632	6.0
January	657	641	-2.4
February	688	663	-3.6
March	640	656	2.5
April	625	686	9.8

TRADE

Coffee Exports

According to Vietnam's Coffee and Cocoa Association (Vicofa) and coffee traders, Vietnam exported about 495 tmt of coffee in the first 7 months (October-April) of the 2003/04 coffee crop. The export value is estimated at \$321 million (see table 3).

Compared with the same period of the 2002/03 crop, Vietnam's 2003/2004 exports increased by 18% in volume but 26% in value because of higher export prices.

Table 3: Vietnam's 2002/03 and 2003/04 coffee exports (October-April period)

	Quantity (tmt)		Value (\$million)	
	2002/03	2003/04	2002/03	2003/04
October	64	46	32	30
November	54	55	30	35
December	63	85	38	53
January	66	69	44	44
February	54	87	37	57
March	64	83	40	54
April	54	70	34	48
Total Jan-April	419	495	255	321

Source: Vicofa and GSO

Coffee exports have slowed since April due to limited coffee supplies. Traders are quoted as saying that some coffee growers and traders are retaining coffee -- anticipating higher prices. The amount of coffee available for export is estimated at 150-200 tmt.

Post estimates Vietnam's 2003/04 coffee export at 700 tmt, slightly higher than last year's export level.

Imports of coffee products

Annually, Vietnam spends about \$750-800 thousand on imports of coffee products (mainly instant coffee). Singapore, Indonesia, Hong Kong and Germany are key coffee product exporters to Vietnam.

Domestic coffee consumption

Domestic coffee consumption in Vietnam is relatively small compared with the country's coffee production. Coffee used for domestic consumption is estimated at 32 tmt (533 thousand bags). Post estimates Vietnam's domestic coffee consumption will increase slightly in the 2004/05 crop to 33 tmt (550 thousand bags) as local consumers drink more coffee.

Table 4: Vietnam coffee PS&D table

Commodity Coffee, Green			(1000 HA)(MILLION TREES)(1000 60 KG BAGS)			
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2002		10/2003		10/2004
Area Planted	520	520	510	510	0	500
Area Harvested	510	510	500	500	0	495
Bearing Trees	637	637	625	625	0	619
Non-Bearing Trees	13	13	13	13	0	6
TOTAL Tree Population	650	650	638	638	0	625
Beginning Stocks	842	842	333	333	300	300
Arabica Production	250	250	310	266	0	300
Robusta Production	10917	10917	11523	11900	0	11700
Other Production	0	0	0	0	0	0
TOTAL Production	11167	11167	11833	12166	0	12000
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	12009	12009	12166	12499	300	12300
Bean Exports	11176	11176	11333	11666	0	11500
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0
TOTAL Exports	11176	11176	11333	11666	0	11500
Rst,Ground Dom. Consum	500	500	533	533	0	550
Soluble Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	500	500	533	533	0	550
Ending Stocks	333	333	300	300	0	250
TOTAL DISTRIBUTION	12009	12009	12166	12499	0	12300

POLICY

Vietnam keen to improve coffee quality

To improve export coffee quality, the Government and coffee organizations are recommending that coffee exporters apply the new coffee standards that were introduced in early 2002 (see Report VM-3012). However, very few coffee exporters have used the new standards, as they do not receive a lot of encouragement (or higher prices) from importers. According to the Ministry of Trade (MOT), strict enforcement of the new standards is a necessary measure to improve coffee quality for export. International buyers seem to disagree and/or like buying poor quality coffee at cheap prices.

Vicofa also wants coffee buyers to participate in the coffee quality improvement program.

Vicofa thinks coffee importers should purchase lower moisture coffee at 12.5% instead of the

current rate of 13%, and that the foreign matter percentage for export coffee should be reduced to 1% from the current level of 5%. Again, it seems, the international buyers are reluctant to actually demand better quality coffee through higher prices.

Vietnam-Indonesia cooperation on control of robusta coffee prices is out of reach.

In 2003, Vietnam and Indonesia (two leading Southeast Asian robusta coffee powerhouses) signed an MOU to retain 20 percent of their production if export prices are too low. However, many in Vietnam see that idea as unfeasible (and expensive). According to Vicofa, the program would cost Vietnam at least VND 1,400 billion (or \$89 million) to keep 140 tmt of robusta off the market. Moreover, assuming Vietnam and Indonesia did retain large stocks, importers could easily buy coffee from other countries because Vietnamese and Indonesian robusta coffee exports only sum to about 35% of the global robusta coffee trade.

Measures set for sustainable coffee development by 2010

The Ministry of Agricultural and Rural Development (MARD) has set new measures and solutions-- such as stabilizing coffee area, improving coffee quality (crop varieties, processing), encouraging domestic coffee consumption and building trade marks -- for encouraging sustainable coffee development by 2010.

Accordingly, during the 2004-2010 period, (MARD hopes) Vietnam's coffee area will be reduced by 100-110 tha of robusta coffee of which around 90 tha will be from the Tay Nguyen Central provinces and about 20 tha from the central region. Cashew, rubber, pepper, cocoa, and other crops such as corn and beans will be good replacement crops for coffee (according to MARD).

Coffee post-harvest handling and processing is also given priority. Building trademarks for Vietnam coffee is one of measures to increase coffee competitiveness. Out of 56 coffee processors operating in Vietnam, only 5 enterprises have completed the registration process for their trademarks, according to Vicofa.

Vietnam promote coffee to non-traditional and domestic markets

Vietnam is looking to promote coffee to non-traditional and domestic markets. Reportedly, Vicofa has signed a cooperative agreement for annual coffee exports of around 10,000 mt of coffee to China. Vietnam hopes the populous neighboring country will become a potential market for Vietnam coffee.

Vietnam also sees an importance in promoting coffee in the domestic market of more than 80 million people. Vietnam will work on promotion programs to increase coffee consumption in the domestic market to a million bags from the current level of a half-million bags in near future.